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Every individual a market.

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-----Original Message-----

From: Steve Kanzler [mailto:steve@likeminds.com]

Sent: Friday, May 01, 1998 7:43 PM

To: 'LikeMinds'; 'LikeMinds Board'

Subject: Progress Report

4/27-5/1 Progress Report

Some good stuff to report this week.

Put in place new more structured management process with scheduled regularly scheduled 1-1 meetings and an executive staff meeting with written objectives.. This has been well received. Everyone is happier and more focused with clear objectives.

Reached agreement with Ian Tidswell to drive the business planning process to completion. Ian is an MBA and McKinsey consultant. He will do a great job, and he's agreed to work for slave wages. Ian knows our situation but really likes LikeMinds as a company. Assuming this works out, we plan to offer Ian a full time job in Strategic Business Development.

Linda and I interviewed, and I made an offer to Jake Miller to be a part-time CFO/COO. Jake is another friend of LikeMinds and was performing a similar role at Phoenix Pop, so he knows the job, the players, and can hit the ground running with little supervision. Our offer is very low but I'm hoping Jake will take it.

Assuming Jake and Ian come on board, we will have plugged the hole Mark left with two new players who will both make very positive contributions to LikeMinds, and manage to save a few bucks in the process.

CEO process continues. Dan Dickson is being very aggressive. That's good. John Fess is very interested. Next week I want to interview Dan Rudolf, another Draper-Fisher recommendation who has been helping us with our business planning.

Linda secured an additional \$3000 in immediate revenue from Levi Canada for work that we could have ended up doing for free. Congratulations Linda. Every little bit helps. Linda also secured PJ Santoro's help in expediting our \$33K invoice from Levi Strauss.

We have made the decision to go ahead and pursue placing ads on the Movie Critic site assuming we can work out the engineering details. This has the potential to bring in \$3-10K of revenue per month.

Dan traveled to NYC this week. Purpose of the trip was to resolve Columbia House issues, do a sales pitch to Cinemax/HBO on direct email and hosting their web site, meet with a Deepak-introduced potential angel investor, speak at a conference, and meet with other potential customers.

Dan secured an agreement in principle with Cinemax to host their web site for \$6000 a month. Turns out we probably under-priced this but it will net LikeMinds an additional \$3500 a month in cash flow, so it's a win.

Cinemax is interested in Direct Email and asked for a proposal.

CH meetings were testy. They have problems on their end with the TotalE site and they blame LikeMinds to cover their ass. We do share some responsibility and will have to jump through some hoops to keep them happy. Dan has taken on this task.

On the other hand, the CH direct mail project is on track. Yoram Greener who is the key guy at CH on this project seems happy. We have \$50K in outstanding invoices for this project and Yoram is pushing these through. We have resurrected Borders. Scott Wilders has requested that I fly to Ann Arbor in May to restart discussions.

TheDJ.Com has come back to us. Apparently they aren't thrilled with Net Perceptions. I still rate this as no better than 50-50. I think they really would prefer to go with LikeMinds but they are concerned that we haven't been funded yet. Our challenge is to allay those concerns. I met with Tim O'Reilly on Friday and Tim will call Josh Felser, President of theDJ on Monday and say that he's behind us.

Linda had a very fruitful meeting with Miller-Freeman Publishing this week that may lead to another paid Direct Mail proof-of-concept project similar to the CH project. This is very exciting.

Linda and I had a meeting with a Canadian company CSI Credit. CSI does POS-based affinity marketing for Levi Canada. They are providing the POS data we are using in our Levi Canada project. They want to do a joint LikeMinds/CSI/Levi project to do personalized up-selling and promotions at the POS terminal. This could be a very exciting proof-of-concept project that could open up the huge POS market for LikeMinds.

We have re-opened discussions with a few VCs (K-P, NEA, Olympic) where I have personal friends. I sent them a

personal 1-2 page teaser (sample attached) outlining our new business strategy. Feedback will give us direction on how to proceed with our VC funding efforts I.E. do we spend any time with VCs we've pitched to before or only focus on new VCs.

Goals for next week.

- 1) Continue the CEO search
- 2) First Ian draft of new business plan
- 3) Resolve operations management issue
- 4) Contact more VCs
- 5) Work on paid proof-of-concept projects
- 6) Complete follow-up on Stratagem-initiated strategic partner and M&A discussions.
- 7) Resolve TotalE problems
- 8) Launch project to serve ads on Movie Critic

This is a copy of the email that I sent to Russ Siegelman at K-P. I sent similar to Stewart Alsop at NEA and Chad Waite at Olympic...

I wanted to give you an update on LikeMinds and how we've evolved since we last talked, what almost 18 months ago???

First and foremost we are still around.

We have been learning. Understanding the market. Developing a focused strategy. We have grown much stronger and smarter in the process.

We have re-organized and strengthened the management. As part of this process I have assumed the role of CEO. During this period, we have been supporting ourselves with customer revenue and a small investment from a private party. We felt it would be premature to seek funding again until we had developed a compelling business model.

We now have such a business model and it can be summarized in 6 lines:

Out: Mass Media and Mass Marketing  
In: Interactive point-point media and 1-1 marketing  
Conclusion: The new marketing paradigm will be direct marketing to the individual  
Opportunity: Real time, interactive, 1-1 marketing solutions  
Premise: Personalization is the solution  
Business: Personalization services and software for online/offline direct marketers

Let me explain:

The Web, Interactive T-V and other information appliances, and database marketing (such as loyalty clubs EG. your grocery store, the Coke card, etc.) are fundamentally changing marketing. Relationship, affinity, 1-1 (pick your term) marketing is the new way.

Most personalization efforts have been online. But in the last year we've learned that the opportunity for offline personalization, such as personalized direct mail, dwarfs the size of the online opportunity and it will continue to do so for the near term. For example, key LikeMinds customer Columbia House generates 97% of their revenue from direct mail and 3% online despite the fact that [www.Columbiahouse.com](http://www.Columbiahouse.com) is the #2 e-commerce site and Columbia House just launched its new LikeMinds-powered [www.TotalE.com](http://www.TotalE.com) entertainment site. Even as Columbia House is spending heavily online, they still project online revenues to contribute no more than 20% of total revenue in 4 years. This presents a great leverage opportunity. We have a project underway at Columbia House that uses our technology to personalize Columbia House's customer reactivation direct mail campaign. That one campaign currently generates \$6M per year in profits to Columbia House, based on a 2% response rate. If personalization can improve the response rate in that one campaign from 2% to 3%, it contributes \$3M in additional profits to Columbia House's bottom line at no additional cost to them other than what they pay LikeMinds for this service. This kind of ROI obviously makes a compelling case for LikeMinds products and services.

The market opportunity is enormous. The DMA currently estimates the size of the direct marketing industry at \$1.2 trillion. Direct Marketers spend \$164B on marketing. At least \$48B of that amount is spent on efforts such as direct mail and telesales that can benefit from personalization.

Response rates in the offline direct marketing industry are stagnant at around 2%. The industry is hungry for new technology that can be applied at customer touch points to improve response rate, loyalty, and service. Personalization is the answer.

Even so, we are not neglecting the online market. I'm sure you are well versed in the current and projected size of the online market. Most online companies are committed to personalization as the key marketing strategy, although most efforts are primitive and ROI has yet to be conclusively demonstrated.

This explains our strategy today. We are focusing offline because that's where the \$'s are today and proof of concept (ala the CH project) is easier to demonstrate. However, we are investing in online because of the future \$'s there.

To this end we have both online and offline projects underway at Levi Strauss and Columbia House.

The combined online/offline play is compelling. All our evidence indicates personalization can improve the bottom line as well as create "stickiness", enhance loyalty and build brand. The key for LikeMinds is to deliver tangible, quantifiable proof. To that end, we have begun proof of concept trials with key market influencers Levi Strauss and Columbia House. Personalization is still in its infancy. Applying it to 1-1 marketing will be an evolutionary process.

Trials with 1-2 additional direct marketers, a catalog company, a call center vendor, and a retail POS partner will be used to find the "sweet spot" I.E. the right customers, applications, product/service mix, partners and pricing.

We are poised for success. But we need an influx of capital to leverage our "first mover" position, complete the trials and capitalize on the offline opportunity before our competitors wise up.

I know that one of your concerns was with LikeMinds management structure. I have assumed the role of CEO. Key execs Dan Greening/CTO, Linda Della/VP of Marketing, Jim Doubek/VP of Engineering, and collaborative filtering inventor John Hey remain. The team is united, executing, and committed to the success of the company.

Our business strategy is sound. The market opportunity is big. The media changes mean that future marketing will essentially all be direct 1-1 marketing. Personalization is the obvious choice to execute 1-1 marketing. LikeMinds has a product strategy and defensible technology that can cut through the hype and actually deliver personalized products and appeals both online and offline.

You are a friend. I value your opinion and I'd appreciate some advice and feedback.

Does the management change make a difference?

Is our current business strategy appealing?

I'm in the process of putting together a new plan now. It will be done in 3 weeks.

I'd like to present the new plan to you on or about May 18.

What do you think? IMHO we have a pretty compelling story but I'd like to hear your thoughts. Let me know.

Thanks.

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